MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

DTX5024 – TAXATION 2

(All Sections/Groups)

17 OCTOBER 2019
2.30 p.m - 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Sandoshaam Sdn. Bhd. is a locally incorporated resident company. The business consists of manufacturing parts for selected brands of commercial electrical goods like air-conditioner and air-purifier. The company closes the accounts to 31 December each year. The results for the financial year ended 31 December 2018 is appended below:

Sandoshaam Sdn. Bhd.

Statement of Profit or Loss for the year ended 31 December 2018

	Note	RM'000	RM'000
Sales			576,300
Less: Cost of sales			299,740
Gross profit			276,560
Add: Other income			
Gain on disposal of shoplot	1	54	
Interest on overdue debts		35	
Rental	2	23	112
			276,672
Less: Expenses			
Salaries and wages	3	1,200	
Loan interest	4	86	
Entertainment	5	260	
Depreciation	6	808	
Repair and maintenance	7	427	
Bad and doubtful debts	8	577	
Motor vehicle expenses	9	80	
Loss on sale of motor car		22	
Penalty for late payment of sales tax		650	
Lease payments	10	218	
Advertisement and publicity	11	595	
Professional fees	12	122	
Insurance	13	80	
Training	14	32	
Donation	15	45	5,202
Profit before taxation			**271,470**

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Notes to the account:

1. Gain on disposal of shoplot

The company acquired this property in 2018 for RM54,000. It was originally used as a showroom for the company's manufactured products.

2. Rental

The company received RM23,000 from a company for renting out a space in its premises.

3. Salaries and wages – managing director

Payment to the managing director charged under 'Salaries and Wages' is as follows:

	Particulars	RM'000
(a)	Salary	264
(b)	EPF contribution	58
(c)	One free overseas trip	23
	Total	**345**

4. Loan Interest

The company paid interest on a loan taken from a local bank. RM26,000 was interest on a loan for investment purposes and the balance of RM60,000 is for working capital.

5. Entertainment

	Particulars	RM'000
(a)	Company annual dinner	30
(b)	Payment to the company's marketing staff to disburse their entertainment expenses	120
(c)	Entertainment for foreign customers	60
(d)	Promotion expenses incurred on the company's new products	50
	Total	**260**

6. Depreciation

Total depreciation for all assets the company acquired is amounting to RM808,000 for the year of assessment 2018.

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7. Repair and maintenance

The company extended the sales office for RM168,000. RM59,000 refers to the maintenance of the production plant and machinery. End of the year the company incurred RM200,000 to replace the entire factory building.

8. Bad and doubtful debts

The company's bad and doubtful account is as summarized below:

	Particulars	RM'000
(a)	Trade debtors written off	114
(b)	General provision for bad debts (trading account)	260
(c)	Specific provision for bad debts (loan account)	143
(d)	Bad debts written off being the advancement to a customer	21
(e)	Bad debts written off being the advancement to a supplier	39
	Total	**577**

9. Motor vehicle expenses

Compounds and fines for traffic violations by the company's marketing staff amounted to RM14,000 while RM66,000 refers to repairs, spares, insurance, and road tax for the company commercial vehicles.

10. Lease payments

a) The company leased a passenger car and lorry during the year amounting to RM100,000 and RM118,000 respectively.
b) A new passenger car would cost RM300,000.

11. Advertisement and publicity

During the year the company acquired a patent on a product that cost RM104,000. Other advertising during the year included radio commercial costing RM426,000 while another RM65,000 was incurred on gift to customers who made purchases exceeding a set threshold.

12. Professional fees

During the year, the company had incurred and paid the following professional charges:

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	Particulars of expenditure	RM'000
(a)	Termination of a supply contract which was proving to be unprofitable	12
(b)	Guarantee fee on a bank loan for the company's director	18
(c)	Preparing a lease agreement for the motor vehicle and the machine that was leased during the year.	13
(d)	Preparing a new supply contract with a local brand for the manufacture of parts	7
(e)	Secretarial fees	8
(f)	Tax filing fees	16
(g)	Income tax appeal	35
(h)	Accounting and auditing fee	13
	Total	**122**

13. Insurance

During the year the company imported some cargoes and insured the risk with a local insurance company for RM20,000. Some cargoes were exported during the year and this was insured with a foreign company for RM26,000. The company's fixed assets were insured against fire and flood with a local insurance company for RM34,000.

14. Training

The company incurred RM9,000 on the provision of practical training in Malaysia related to business to non-employees and another RM10,000 on training for employees for the updates of current practice of taxation in Malaysia.

The balance of RM13,000 was incurred on external training for the employees to increase their efficiency and motivation towards job assigned.

15. Donation

The company made a cash donation of RM45,000 to the Melaka State Government during the year.

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16. Other information:

For the year of assessment 2018, the company is claiming capital allowance of RM62,000,000 on its assets used in the business and balancing allowance of RM19,000,000. Balancing charge for the year of assessment 2018 is RM2,500,000.

Required

Based on the information given, compute the chargeable income of Sandoshaam Sdn Bhd for the year of assessment 2018. (Total: 20 marks)

QUESTION 2

Vivy, the owner of Fragrance Baby Vanilla, commenced her boutique and cafe business on 1 March 2018. Vivy incurred the following capital expenditure for her business during the year ended 31 December 2018:

No.	Type of assets		RM
1.	Table and chairs		24,000
2.	Air conditioners		16,000
3.	Glasses and plates		6,000
4.	Cooking equipment		24,000
5.	Latest model kitchen oven		120,000
6.	Passenger vehicle (hire purchase):	Cost of new vehicle	148,000
		Deposit paid	28,000
		Instalment exclude interest	5,000
	(instalment starts from 1 June 2018 for 48 months)		

It had been agreed with the LHDN that the passenger vehicle is used 20% for private purposes and 80% for business purposes.

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Required

a) Calculate the capital allowances for the assets acquired by Fragrance Baby Vanilla for the year of assessment 2018. (15 marks)

b) State the conditions and compliance requirement which must be fulfilled before capital allowances can be claimed. (5 marks)

(Total: 20 marks)

QUESTION 3

Part A

Organic Healthcare Sdn Bhd is a local resident company incorporated in 2010 to carry on the business of providing medical services. It closes its accounts to 31 December each year. The company acquired a piece of land and constructed its own medical building, completed in July 2016. The relevant expenditure incurred is as follows:

Particulars of expenditure	**RM**
Cost of land	200,000
Construction of building	3,800,000
Architect fee for the land	64,515
Architect fee for the extension	45,000
Cutting and leveling land	106,079
Landscaping charges	29,973
Excavation and preparation of site for construction	37,000
Piling and foundation works	638,000
Construction of perimeter wall	15,000
Interior design fee for extension (non-resident: WHT)	47,513
Legal services for obtaining various building approval	22,000
Subcontract charges for installation of wiring and plumbing	33,000
	5,038,080

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Part of the extension included the construction of a showroom to exhibit the company's products, which occupied 15% of the total area. In the year of assessment 2018, Organic Healthcare disposed the industrial building to Medical Touch Sdn Bhd amounted to RM3.8 million.

Required

Determine Organic Healthcare Sdn Bhd's qualifying building expenditure for the year of assessment 2018. Kindly calculate the industrial building allowance up to year of assessment 2018. (13 marks)

Part B

Anan Vegie Sdn Bhd operates a farm growing organic fruits and vegetables. Details of capital expenditure in the basis period for the year of assessment 2018 are shown as below:

No.	Type of assets	RM
1.	Land	240,000
2.	Clearing land	80,000
3.	Construction of an estate office	126,000
4.	Construction of a storage building to store equipment	24,000
5.	Construction of road to access the farm	70,000
6.	Construction of living quarters for the employees	240,000
	TOTAL	**780,000**

Required

Calculate the agriculture allowance for Anan Vegie Sdn Bhd for the year of assessment 2018, by identifying which qualifies and does not qualify for this allowance. (7 marks)

(Total: 20 marks)

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QUESTION 4

The partnership of Zatty and Sissy commenced on 1 January 2016 and accounts are prepared to 31 December annually. The partnership agreement provided for the following:

	Interest on capital : 10% per annum for each partner	Zatty (RM)	Sissy (RM)
1.	Capital contribution	90,000	123,000
2.	Salary (month)	2,100	2,400
3.	Share of divisible income/(loss)	1/4	3/4

On 31 July 2018, Zatty left the partnership and withdrew his accumulated capital and profits up to that date.

On 1 August 2018, Dean joined the partnership and the new partnership agreement provided for the following:

	Interest on capital : 10% per annum for each partner	Sissy (RM)	Dean (RM)
1.	Capital contribution	120,000	120,000
2.	Salary (month)	2,300	2,300
3.	Share of divisible income/(loss)	1/2	1/2

The partnership's trading, profit and loss account for the year ended 31 December 2018 was as follows:

	RM
Income from trading goods	7,600,530
Less : Cost of good sold	(6,945,730)
Gross profit	654,800
Other income	129,500
	784,300
Less : General overhead	(577,300)
Net profit for the year	207,000
Included in the general overhead are:	
Partners' salary	57,600
Partners' interest on capital	25,000
Depreciation on fixed asset	33,000

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Capital allowance for the year of assessment 2018 was RM40,600.

Required

Calculate the statutory income of each partner from the partnership for the year of assessment 2018. (Total: 20 marks)

QUESTION 5

Part A

Henry Yap acquired a bungalow for a consideration of RM450,000 and the full sum was paid on 20 August 2016. The transfer process was completed on 10 December 2016. Henry also paid RM4,500 for stamp duty on transfer, RM55,000 as extension for the bungalow and RM51,366 in interest for the mortgage.

In January 2018, Henry received RM30,600 from a developer as compensation for damages to his bungalow caused by piling work carried out on the adjacent land. In addition, Henry also received RM12,200 from the insurance company for the said damage. In September 2018, he received a deposit forfeited of RM10,000 from a potential buyer who call off the deal.

Henry sold his bungalow for RM750,000 and the Sale and Purchase Agreement was dated 15 September 2018. The consideration was paid to him on 1 October 2018. He incurred the following expenditure in connection with the sale:

Items	Amount (RM)
Valuation fee	10,700
Agent fee	18,750
Legal fee for defending title	7,100
Cost of advertisement	1,700
TOTAL	**38,250**

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Required

Calculate the chargeable gain and real property gains tax for the year of assessment 2018.

(10 marks)

Part B

For each of the payments below, state with reasons, whether or not the payment will be subject to withholding tax:

i) Apacs Sdn Bhd is a company incorporated in Malaysia. It operates since 2016, the incorporation has been located entirely in Jakarta, which is also where all of its board meetings are held. It obtained the right to use a patented process from India for the production of underwater movies for which it pays an annual royalty RM230,000.

ii) Metaphysic Sdn Bhd is a company whose solar technology operations are located in Pahang. It obtained access to a right to use a secret process developed by Eleiman Ltd, an Abu Dhabi company, which operates in Malaysia through a registered branch. The royalty payment for the use of process, is made to Eleiman Ltd's branch in Malaysia.

iii) Wadee Sdn Bhd, a resident company in Malaysia, has a manufacturing factory in both Malaysia and Brunei. It has agreed to pay royalty to a foreign company for the right to use the company's technical know-how in its factory both in Malaysia and Brunei. The royalty to be paid will be based on 2% of the Wadee Sdn Bhd's Brunei branch's annual sales revenue.

iv) Attract Wealth Sdn Bhd is a resident company in Malaysia, whose business is to provide water filtration for local state government. In 2018 it bought water purification equipment, from Je T'aime Ltd, a French company for RM1.4 million.

(10 marks)

(Total: 20 marks)

[GRAND TOTAL: 100 MARKS]

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2018:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Agriculture Allowances YA 2018:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%
(e) construction of any other building (smoke house, estate office)	10%

Rates of Real Property Gains Tax: ***Effective 1st January 2014 onwards***

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

End of Paper